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AZ CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE, Chairman

SANDRA D. KENNEDY

PAUL NEWMAN

BOB STUMP

BRENDA BURNS

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE BY
ITS ANTHEM/AGUA FRIA
WASTEWATER DISTRICT, SUN CITY
WASTEWATER DISTRICT, AND SUN
CITY WEST WASTEWATER DISTRICT

Docket No. W-01303A-09-0343
SW-01303A-09-0343

**Notice of Filing Verrado
Community Association, Inc.'s
Direct Testimony**

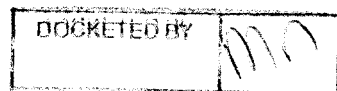
Verrado Community Association, Inc., through its undersigned counsel, hereby provides notice of filing the Direct Testimony of Melinda Gulick and Kent Simer in the above-referenced matter.

DATED this 16th day of August, 2011.

Arizona Corporation Commission

DOCKETED

AUG 16 2011



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3 Docket Control
4 Arizona Corporation Commission
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6 Phoenix, Arizona 85007

7 COPY of the foregoing mailed this
8 16th day of August, 2011, to:

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 GARY PIERCE, Chairman
4 SANDRA D. KENNEDY
5 PAUL NEWMAN
6 BOB STUMP
7 BRENDA BURNS

Docket No. W-01303A-10-0448

7 IN THE MATTER OF THE APPLICATION
8 OF ARIZONA-AMERICAN WATER
9 COMPANY, AN ARIZONA
10 CORPORATION, FOR A
11 DETERMINATION OF THE CURRENT
12 FAIR VALUE OF ITS UTILITY PLANT
13 AND PROPERTY AND FOR INCREASES
14 IN ITS RATES AND CHARGES BASED
15 THEREON FOR UTILITY SERVICE BY
16 ITS AGUA FRIA WATER DISTRICT,
17 HAVASU WATER DISTRICT, AND
18 MOHAVE WATER DISTRICT

15 **Direct Testimony**

16 **of**

17 **Melinda Gulick**

18 **on behalf of Verrado Community Association, Inc.**

19 **August 16, 2011**

Executive Summary

Melinda Gulick is the President of Verrado Community Association, Inc. (the "Association"). Ms. Gulick describes the Association's concerns regarding the proposed deconsolidation of Arizona-American Water Company's Agua Fria/Anthem Wastewater District which, if granted, will significantly impact Verrado residents.

Verrado is a new community of homes and businesses located near the White Tank Mountains in Buckeye, Arizona. Verrado is expected to have approximately 11,000 homes spanning 8,800 acres. Currently, there are roughly 1813 homes occupied in the community, approximately nine businesses and four schools. All of Verrado's water and sewer service is provided by Arizona-American Water Company.

The Association is a non-profit corporation that serves approximately 5892 current Verrado residents through a variety of services and community and recreational activities. The Association is seriously concerned about the impact of a large sewer rate increase on its current residents. Sewer rates for typical residential customers were just increased in December in this case by approximately 43.5% (see Decision No. 72047, Exhibit A, p. xii). The current deconsolidation proposal would extend that increase to approximately 135%, or to a combined increase in sewer rates in this case alone of \$46.19 per month for the average residential user. Our concern regarding increased sewer rates is aggravated by a current proposal to increase the Agua Fria Water District water rates approximately 83% in case number WS-01303A-10-0448. Verrado residents pay both water and sewer rates to Arizona-American. Verrado residents, who fund the Association, will also be impacted by increases to the Association's overall costs.

Verrado's residents include many people who are on fixed or reduced incomes that have already been significantly impacted by adverse economic conditions in the Phoenix area in recent years. The Association opposes any unfair or untimely increases in water and sewer rates, especially during these trying economic times, and requests that the Commission carefully examine and consider in making its decision in this case all of the consumer comments and proposed remedies entered in this docket.

The Anthem/Agua Fria Wastewater District should not be deconsolidated in this case because it is unfair and unnecessary. The original application filed by Arizona-American on July 2, 2009 did not propose to deconsolidate any of the four separate wastewater systems currently in the Anthem/Agua Fria Wastewater District, nor did the application warn Verrado customers of the very high rates now offered for the proposed three-system Agua Fria Wastewater District. Verrado customers were not part of the settlement agreement reached by Arizona-American, Anthem, RUCO, and Staff that is described in Decision No. 72047, and had insufficient warning prior to Decision No. 72047 of the enormous sewer rate increase now proposed for the new district. It is unfair to Verrado customers to make such a drastic last-

1 minute change in Arizona-American's application after the discussion of the underlying bases
2 for the overall rate increase has already been closed.

3 In addition, Arizona-American was ordered in the last paragraph of Decision No. 72047
4 to develop a consolidation proposal that includes all of its systems and file the consolidation
5 proposal in a future rate application. It makes no sense now to require a last-minute
6 deconsolidation of one of the four Anthem/Agua Fria Wastewater District systems when the
7 Commission intends to entertain a more comprehensive consolidation proposal in an upcoming
8 rate case. Both deconsolidation and consolidation should be considered in a new rate case
9 where all participants will see up front all the rate proposals under consideration and will have
10 the opportunity to fully participate in all aspects of the rate case.
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1 **Q. Please state your name, position, business address, and telephone number.**

2 A. My name is Melinda Gulick. I am the current President of Verrado Community
3 Association, Inc. (the "Association"). I am also employed by DMB Associates as Vice
4 President of Community Life. My business address for the Association is 4236 North
5 Verrado Way, Suite A200, Buckeye, Arizona 85396.

6 **Q. Have you previously testified before the Commission?**

7 A. Yes. I provided testimony on behalf of the Association in Arizona-American Water
8 Company's ("Arizona-American's") ongoing water rate case, Docket No. W-01303A-10-
9 0448.

10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony is to describe the Association and its interest as an
12 Intervenor in this case. In particular, I am describing the Association's concerns with the
13 proposed deconsolidation of the Anthem/Agua Fria Wastewater District in this case and
14 the proposed change in rates will have on the Association and residents.

15 **Q. Please describe Verrado.**

16 A. Verrado is a new community of homes and businesses located near the White Tank
17 Mountains in Buckeye, Arizona. Verrado is expected to have approximately 11,000
18 homes spanning 8,800 acres. Currently, there are roughly 1813 homes occupied in the
19 community, approximately nine businesses and four schools. All of Verrado's water and
20 sewer service is provided by Arizona-American.

21 **Q. Please describe the Association.**

22 A. The Association is a non-profit corporation that serves approximately 5892 current
23 Verrado residents through a variety of services and community and recreational activities.

24 **Q. Please described the Association's interest in this case.**

25 A. The Association has two overriding interests in this case. First, the Association is
26 seriously concerned about the impact of another large sewer rate increase on its current
27 residents. Sewer rates were just increased in December in this case for typical residential
28 customers by approximately 43.5% (see Decision No. 72047, Exhibit A, p. xii). The

1 current deconsolidation proposal would extend that increase to approximately 135%, or
2 to a combined increase in sewer rates in this case alone of \$46.19 per month for the
3 average residential user. Our concern regarding increased sewer rates is aggravated by a
4 current proposal to increase the Agua Fria Water District water rates approximately 83%
5 in case number WS-01303A-10-0448. Verrado residents pay both water and sewer rates
6 to Arizona-American.

7 Verrado's residents include many people who are on fixed or reduced incomes that
8 have already been significantly impacted by adverse economic conditions in the Phoenix
9 area in recent years. The Association opposes any unfair or untimely increases in water
10 and sewer rates, especially during these trying economic times, and requests that the
11 Commission carefully examine and consider in making its decision on this case all of the
12 consumer comments and proposed remedies entered in this docket.

13 Second, the Association pays sewer bills too, and Verrado residents who fund the
14 Association will be impacted by increases to the Association's overall costs.

15 **Q. Does Verrado have an opinion regarding the proposal to deconsolidate the**
16 **Anthem/Agua Fria Wastewater District into two separate districts?**

17 **A.** Yes. The Anthem/Agua Fria Wastewater District should not be deconsolidated in this
18 case because it is unfair and unnecessary. The original application filed by Arizona-
19 American on July 2, 2009 in this case did not propose to deconsolidate any of the four
20 separate wastewater systems currently in the Anthem/Agua Fria Wastewater District, nor
21 did the application warn Verrado customers of the very high rates now offered for the
22 proposed three-system Agua Fria Wastewater District. Verrado customers were not part
23 of the settlement agreement reached by Arizona-American, Anthem, RUCO and Staff
24 that is described in Decision No. 72047, and had insufficient warning prior to Decision
25 No. 72047 of the enormous sewer rate increase now proposed for the new district. It is
26 unfair to Verrado customers to make such a drastic last-minute change in Arizona-
27
28

1 American's application after the discussion of the underlying bases for the overall rate
2 increase has already been closed.

3
4 In addition, Arizona-American was ordered in the last paragraph of Decision No.
5 72047 to develop a consolidation proposal that includes all of its systems and file the
6 consolidation proposal in a future rate application. It makes no sense now to require a
7 last-minute deconsolidation of one of the four Anthem/Agua Fria Wastewater District
8 systems when the Commission intends to entertain a more comprehensive consolidation
9 proposal in an upcoming rate case. Both deconsolidation and consolidation should be
10 considered in a new rate case where all participants will see up front all the rate proposals
11 under consideration and will have the opportunity to fully participate in all aspects of the
12 rate case.

13 **Q. Does this conclude your testimony in this case?**

14 **A. Yes.**

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 GARY PIERCE, Chairman
4 SANDRA D. KENNEDY
5 PAUL NEWMAN
6 BOB STUMP
7 BRENDA BURNS

Docket No. W-01303A-09-0343

7 IN THE MATTER OF THE APPLICATION
8 OF ARIZONA-AMERICA WATER
9 COMPANY FOR A DETERMINATION OF
10 THE CURRENT FAIR VALUE OF ITS
11 UTILITY PLANT AND PROPERTY AND
12 FOR INCREASES IN ITS RATES AND
13 CHARGES BASED THEREON FOR
14 UTILITY SERVICE BY ITS ANTHEM
15 WATER DISTRICT AND ITS SUN CITY
16 WATER DISTRICT, AND POSSIBLE
17 RATE CONSOLIDATION FOR ALL OF
18 ARIZONA-AMERICAN WATER
19 COMPANY'S DISTRICTS.

20 **Direct Testimony**

21 **of**

22 **Kent Simer**

23 **on behalf of Verrado Community Association, Inc.**

24 **August 16, 2011**

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1 **I. EXECUTIVE STATEMENT**

2 Kent Simer provides direct testimony on behalf of Verrado Community Association, Inc.
3 ("Verrado"). Verrado is in the Agua Fria Wastewater District and faces the potential of
4 significant rate shock if a decision is made to deconsolidate the Anthem/Agua Fria Wastewater
5 District.

6 Mr. Simer reminds the Commission that Arizona-American Water Company ("Arizona-
7 American") has also been ordered in this case to propose a complete consolidation of their water
8 systems in a future rate application. Mr. Simer testifies against any decision to deconsolidate
9 prior to a Commission decision on consolidation. Mr. Simer testifies that customers expect
10 stable and predictable rates, and decisions authorizing both deconsolidation and consolidation
11 have the potential to create unstable rates.

12 Mr. Simer testifies that the proposed deconsolidation will lead to significant rate shock
13 for Agua Fria customers and lead to a significant disparity in rates between territories for the
14 same type of service. Mr. Simer believes the establishment of a significant disparity in rates for
15 the same type of service is inconsistent with A.R.S. section 40-334(B).

16 Mr. Simer testifies that deconsolidation would lead to increased rate case expense and
17 regulatory lag between rate settings. Mr. Simer testifies that increased lag may impact Arizona-
18 American's ability to collect its authorized rate of return in a timely manner.

19 Mr. Simer testifies that implementation of the use of winter-average rates as a measure of
20 sewer usage, a proposal adopted in Decision No. 72047, should be postponed until after a
21 decision on consolidation is made by the Commission to avoid any added confusion and
22 changes to the rates of the customers.

23 Arizona-American's proposal to shift revenue from the OWU class to respond to the City
24 of Phoenix request for a change in water measurement methodology is outside the scope of this
25 proceeding and should not be considered.

26 Finally, Mr. Simer testifies that deconsolidation may lead to different management
27 practices being deployed throughout Arizona-American districts versus common management
28 practices under a consolidated Arizona-American.

1 **II. INTRODUCTION**

2 **Q1. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.**

3 **A1.** My name is Kent R. Simer. My business address is 160 N. Pasadena, Suite 101, Mesa,
4 Arizona. I am a Utility Rate Consultant for K. R. Saline & Associates, PLC, a firm that
5 provides electrical engineering services, management consulting, and ongoing business
6 operational services primarily to wholesale public electric utilities.
7

8 **Q2. PLEASE DESCRIBE YOUR PROFESSIONAL QUALIFICATIONS AND**
9 **EXPERIENCE.**

10 **A2.** I have been employed at K. R. Saline & Associates, PLC for the past thirteen years,
11 providing various services to our clients. For the past six years my primary
12 responsibilities have included performing cost-of-service and rate design, economic
13 analyses and computer-aided modeling for power supply planning, load forecasting,
14 financial forecasting, and cost/benefit analysis for various municipal, tribal and public
15 utilities throughout Arizona.
16

17 I have a Bachelors Degree in Interdisciplinary Studies in Business and Communications
18 from Arizona State University. Additionally I have completed American Public Power
19 Association basic and advanced Utility Cost of Service and Retail Rate Design courses.
20

21 **Q3. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

22 **A3.** Yes. I am currently providing testimony in Arizona-American Water Company's rate
23 case filed in Docket No. W-01303A-10-0448.
24

25 **Q4. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

26 **A4.** I am appearing on behalf of the Verrado Community Association, Inc. ("Verrado").
27 Verrado is a customer of Arizona-American's Water Company's Anthem/Agua Fria
28

1 Wastewater District ("Arizona-American"), and has as members numerous residential
2 and commercial customers who are directly impacted by the proposal to deconsolidate
3 the Anthem/Agua Fria Wastewater District.
4

5 **Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

6 **A5.** In my testimony I address why it is not appropriate to consider deconsolidation at this
7 time, the rate shock consequences of deconsolidation, rate design matters, and regulatory
8 impact on Arizona-American.
9

10 **III. BACKGROUND**

11 **Q6. PLEASE DESCRIBE THE BACKGROUND REGARDING RATE**
12 **DECONSOLIDATION.**

13 **A6.** On January 6, 2011, the Commission issued Decision No. 72047 in the current Docket,
14 which required the Docket to remain open for the sole purpose of considering the design
15 and implementation of stand-alone revenue requirements and rate designs. Consideration
16 of stand-alone revenue requirements and rate design was a term of the settlement
17 agreement reached during the Open Meeting for the Anthem/Agua Fria Wastewater
18 District and certain other districts.¹ The settlement agreement was the result of last-
19 minute discussions between Arizona-American, the Anthem Community Council,
20 RUCO, and Staff during the Open Meeting. Verrado was not a party to the settlement
21 agreement.
22

23 On April 1, 2011, Arizona-American filed a compliance application containing proposed
24 deconsolidated stand-alone revenue requirements and rate designs for the proposed
25 Anthem and Agua Fria Wastewater districts. Sanda L. Murrey submitted direct
26

27 ¹ Commission Decision No. 72047, January 6, 2011. Docket No. SW-01303A-09-0343, p. 84
28

1 testimony providing stand-alone revenue requirements for each district including the
2 53.98% increase approved in Decision No. 72047. The impact of deconsolidating the
3 wastewater districts, combined with rate impacts from Decision No. 72047, would result
4 in a 15.5% rate increase for Anthem Wastewater customers and 139.7% rate increase to
5 Agua Fria Wastewater customers.² In Sandra Murrey's response to Verrado/DMB 2.4
6 (copy attached), Murrey attributes the disparity in deconsolidated rates to the Northwest
7 Valley Regional Reclamation Facility, the Verrado Reclamation Facility and its
8 expansion, as well as the Russell Ranch Reclamation Facility. If the districts are
9 deconsolidated, the costs of these facilities would be fully allocated to the Agua Fria
10 Wastewater district only.
11

12 **IV. SUPPORT BY PARTIES FOR/AGAINST DECONSOLIDATION**

13 **Q7. DOES ARIZONA-AMERICAN SUPPORT DECONSOLIDATION OF THE**
14 **WASTEWATER DISTRICTS?**

15 **A7.** No. Thomas M. Broderick restates in Verrado/DMB response 2.1 (copy attached) that
16 Arizona-American has never proposed to deconsolidate its districts but rather supports
17 consolidating all five of its wastewater districts for the purpose of ratemaking. In his
18 Direct Testimony, Paul G. Townsley lays out the benefits of consolidation which include:

19 *...improved rate case efficiency, improved ability to make needed capital*
20 *investments in smaller districts without imposing burdensome rate*
21 *increases, improved ability to acquire small troubled water systems,*
22 *improved ability to implement Best Management Practices ("BMPs") for*
23 *water conservation, improved ability to fund and manage low-income*
24 *programs for customers, and a desire to bring the tariff structure of water*
25

26
27

² Compliance Application, April 1, 2011. Docket No. SW-01303A-09-0343, p. 2
28

1 *and wastewater utilities more in line with those of other regulated utilities*
2 *in Arizona.*³

3 As Arizona-American has also been ordered to file a consolidation proposal in a future
4 rate case that includes all of its systems⁴, Mr. Broderick also questions deconsolidating at
5 this time stating "It would be counter-productive to put forth an effort to de-consolidate
6 these districts' rates then later re-consolidate them with the Company's other wastewater
7 districts."⁵

8
9 **Q8. DOES ANYONE ELSE SUPPORT DECONSOLIDATION OF THE**
10 **WASTEWATER DISTRICTS?**

11 **A8.** I am aware that Anthem Community Council supported deconsolidation of the
12 wastewater districts **IF** the consolidation of all Arizona-American's districts is not
13 adopted by the Commission. In the absence of a Commission decision to consolidate all
14 of Arizona-American's utilities, Anthem believes Anthem wastewater customers should
15 not continue to be burdened by the subsidization of Agua Fria wastewater customers on
16 the basis that the subsidization deviates from cost of service rate design principles.
17 Anthem believes the Commission should also deconsolidate due to the fact that the Agua
18 Fria and Anthem wastewater districts are not interlinked and Anthem customers receive
19 no benefit from the Agua Fria wastewater facilities.

20
21 However, Anthem's position earlier in this case was that consolidation of all of Arizona-
22 American's water and wastewater districts would benefit all customers. Anthem supports
23 complete consolidation only as partial-consolidation does not realize the maximum
24 benefits offered through consolidation. For Anthem, the benefits of consolidation include:

25
26 ³ Direct Testimony of Paul G. Townsley, Docket No. W-01303A-09-0343, July 2, 2009, p. 14.

27 ⁴ Decision No. 72047, Docket No. W-01303A-09-0343, January 6, 2011, p. 123.

28 ⁵ Direct Testimony of Thomas M. Broderick, Docket No. W-01303A-09-0343, July 2, 2009, p. 19.

1 (i) lower administrative costs through unified customer accounting and billing systems;
2 (ii) reduction in the number of rate cases and associated expenses; (iii) elimination of
3 distorted cost allocations among districts in rate filings; (iv) implementation of standard
4 customer service policies and related service rates and charges; (v) improved rate stability
5 and elimination of rate shock; (vi) reduced customer confusion with respect to the
6 Company's currently differing rate schedules; (vii) development and implementation of a
7 target and comprehensive water conservation program for all of its systems; and (viii)
8 improved opportunities for future acquisitions, especially of troubled water systems.⁶
9

10 **Q9. IS DECONSOLIDATION CONSISTENT WITH PAST COMMISSION OPINION?**

11 **A9.** I don't believe so given the Commission's recent focus on consolidation. For example, in
12 Docket No. W-01303A-08-0227, Commissioner Mayes submitted a request for
13 information to evaluate the consolidation of Arizona-American's water systems. In her
14 request, Mayes states that consolidation "can provide administrative efficiencies, create
15 economies of scale, facilitate rate stability and bolster reliability, among other benefits."⁷
16 Consolidation was reviewed but not approved in that Docket for several reasons;
17 however, in its Decision No. 71410, the Commission seemed to support Mayes, taking
18 the position that "unnecessary delay does not allow customers to benefit" from the
19 efficiencies that would result through consolidation.⁸ The Commission has also recently
20 approved the first steps toward full consolidation in Arizona Water Company's districts.
21 See Decision No. 71845, pp. 50-53.
22

23 In this case, the Commission has been somewhat inconsistent in its opinions regarding
24 consolidation. The Commission stated in Decision No. 72047 that "Good public policy
25

26 ⁶ Anthem Community Council, Post-Hearing Brief, Docket W-01303A-09-0343, July 16, 2010, pp. 15-20.

27 ⁷ Correspondence, Kristin Mayes, Docket W-01303A-08-0227, November 12, 2008 (copy attached).

28 ⁸ Decision No. 71410, Docket No. W-01303A-08-0227, December 8, 2009, p. 51.

1 requires the Commission to correctly assign cost responsibility for all ratemaking
2 components in as expeditious a manner as possible, and deconsolidation of Anthem Agua
3 Fria Wastewater District is consistent with such action,” yet on the following page the
4 Commission ordered Arizona-American to present a consolidation proposal in a future
5 rate application.⁹
6

7 **V. CONSOLIDATION PROPOSAL**

8
9 **Q10. HAS THE COMMISSION REQUESTED ARIZONA-AMERICAN PRESENT A
10 PROPOSAL TO CONSOLIDATE RATES?**

11 **A10.** Yes. The Commission first requested Arizona-American present a proposal to
12 consolidate rates in Docket No. W-0303A-08-0227; however, the Commission ultimately
13 decided to defer any decision on consolidation until a more thorough vetting, discussion,
14 and public participation regarding consolidation could occur. The Commission ordered at
15 least one proposal for consolidation be presented in the next rate case¹⁰. In the current
16 case, consolidation was discussed at great length, with Arizona-American, Anthem, and
17 others giving significant support to the complete consolidation of Arizona-American’s
18 complete water system. In the instant proceeding most, but not all, of Arizona-
19 American’s water systems were being considered. In Decision No. 72047, the
20 Commission cited the need for Arizona-American to include all of its systems in a
21 consolidation proposal, and to file the proposal in a future rate application.¹¹
22

23 **Q11. IS IT APPROPRIATE FOR THE COMMISSION TO ISSUE A DECISION ON
24 DECONSOLIDATION PRIOR TO CONSIDERATION OF CONSOLIDATING
25 ALL OF ARIZONA-AMERICAN’S WATER SYSTEMS?**

26 ⁹ Decision No. 72047, Docket No. W-01303A-09-0343, January 6, 2011, pp. 84-85.

27 ¹⁰ Decision No. 71410, p. 51.

28 ¹¹ Decision No. 72047, pp. 84, 123.

1 **A11.** No. Consolidation has been discussed at great lengths in the previous and current rate
2 application; however, the Commission has yet to be presented with a proposal that
3 includes all Arizona-American water systems. Consolidation appears to be preferred by
4 Arizona-American, with a number of benefits being touted by the Company. A full
5 consolidation proposal will be heard by the Commission in a future rate application. It
6 does not make sense to consider deconsolidation now. Customers expect stable and
7 predictable rates that are just and reasonable. Adopting deconsolidated rates now may
8 lead to multiple rate changes that have the potential to vary wildly if consolidation is
9 accepted as well. Consolidation will lead to rates that will be the same across the board
10 for the same type of service across Arizona-American systems, whereas deconsolidating
11 will lead to significant disparity between rates. Without the benefit of a full review,
12 discussion, and public comment regarding a full consolidation proposal for Arizona-
13 American's water systems, the Commission cannot fully consider the wisdom of
14 deconsolidation. The Commission should delay any decision on deconsolidation until
15 after the consolidation proposal is considered.
16

17 **VI. RATE DESIGN/SHOCK IMPACT**

18 **Q12. WHAT ARE THE RATE SHOCK IMPLICATIONS OF THE PROPOSED**
19 **DECONSOLIDATION?**

20 **A12.** Deconsolidation will lead to a significant rate increase to Agua Fria wastewater
21 customers due to recent capital investments in the Agua Fria area. Agua Fria wastewater
22 customers will be subject to a 139.7% rate increase if deconsolidation occurs. The
23 Northwest Valley Regional Reclamation Facility, the Verrado Reclamation Facility and
24 its expansion, as well as the Russell Ranch Reclamation Facility are part of the
25 Anthem/Agua Fria rate base. Deconsolidation would place the burden of these
26 investments on the Agua Fria customers only. The resulting rate shock would by any
27 measure be considered excessive and would create a significant disparity to rates charges
28

1 to customers receiving the same type of service in the Anthem and Agua Fria districts. If
2 the Anthem and Agua Fria wastewater districts are deconsolidated, residential rates for
3 7,000 gallons would be \$56.51 while the same service for Agua Fria customers would be
4 \$121.91. Arizona Revised Statutes, Title 40, Chapter 2, Article 6, section 334(B)
5 provides that:

6 *No public service corporation shall establish or maintain any unreasonable*
7 *difference as to rates, charges, service, facilities or in any other respect,*
8 *either between localities or between classes of service. (emphasis added).*

9 The disparity between Anthem and Aqua Fria residential rates under a deconsolidated
10 scenario in these circumstances is an “unreasonable difference” and therefore the
11 Commission should reject the proposal to deconsolidate.
12

13 **Q13. ARE THERE ANY ISSUES REGARDING RATE DESIGN?**

14 **A13.** Yes. Arizona-American has presented winter-average rate designs for the stand-alone
15 Anthem and Agua Fria wastewater districts. Winter-average rate design was approved for
16 the consolidated Anthem/Agua Fria district in Decision No. 72047. In the
17 deconsolidation application, Arizona-American questions whether the winter-average rate
18 design is appropriate for either or both districts and would prefer to further postpone
19 implementing the new rate design.
20

21 **Q14. SHOULD COMMISSION ACCEPT THE STAND-ALONE WINTER-AVERAGE**
22 **RATE DESIGN FOR ANTHEM AND AGUA FRIA WASTEWATER**
23 **DISTRICTS?**

24 **A14.** No. With the proposal for consolidation still outstanding and a decision in the present
25 case still forthcoming, customers are likely to experience a number of rate design changes
26 in a very short timeframe. A guiding principle in rates setting is that rates should be
27 stable and predictable. The new winter-average rate design is likely to add to customer
28

1 confusion, and establishing the rate before a decision on consolidation is made, which
2 may result in a new rate, would be premature. The Commission should, as suggested by
3 Arizona-American, postpone implementing the new rate design.
4

5 **Q15. WHAT IS THE PROPOSED INCREASE OF \$387,153 IN REVENUES TO**
6 **ANTHEM WASTEWATER CUSTOMERS AND SHOULD IT BE ADDRESSED**
7 **IN THIS PROCEEDING?**

8 **A15.** The deconsolidated proposal includes a \$387,153 proposed increase in revenues to
9 Anthem wastewater customers related to a revenue shortfall created from proposed
10 changes to the City of Phoenix's account in the OWU class. The City of Phoenix
11 recently informed Arizona-American of their preference that wastewater billings be based
12 on their actual wastewater usage for reads at the flume. The proposed change in how
13 measurements are being conducted will result in a revenue shortfall that Arizona-
14 American proposed to make up through an increase to other Arizona-American
15 customers. As Mr. Broderick explains in Anthem response 1.3 (copy attached), test year
16 revenues for the account were supposed to be \$733,665, but \$346,512 is proposed to be
17 shifted to residential and commercial customers via the proposed rate design. Mr.
18 Broderick correctly acknowledges that this is a rate design change and leaves it to the
19 Commission to determine if the proposed shift is outside of the scope of this limited
20 compliance proceeding. Arizona-American's proposal to shift revenue from the OWU
21 class to other customers is clearly outside the 2008 test year window, and rate design for
22 the OWU class was already addressed in Decision No. 72047. The Commission should
23 reject this new proposal, and it should instead be considered in a future rate case.
24

25 **VII. OTHER CONSEQUENCES OF DECONSOLIDATION**

26 **Q16. WHAT ARE SOME OF THE CONSEQUENCES OF DECONSOLIDATING THE**
27 **ANTHEM AND AQUA FRIA WASTEWATER DISTRICTS?**
28

1 **A16.** Many of the consolidation benefits outlined by both Arizona-American and Anthem are
2 negated if the Commission proceeds with deconsolidating the wastewater districts. Most
3 importantly, deconsolidation would lead to increased rate case expenses due to the
4 separate rate filings of each utility. This increase in rate expenses would impact both
5 Agua Fria and Anthem customers through increased rates. Separate rate filings would
6 create significant burden on Arizona-American and Commission staff which may lead to
7 increased regulatory lag between rate changes affecting Arizona-American's ability to
8 earn an appropriate return on their investment. Arizona-American's operating districts
9 have under-earned for several years, and as a whole, has lost over \$31 million since the
10 2002 purchase of facilities from Citizens Utilities. It would not be in the best interest of
11 Arizona-American or its customers to implement anything that might add unnecessary
12 additional stress to their financial position.
13

14 Deconsolidating utilities may lead to a disparity in management practices. Though
15 Arizona-American's water utilities are not interconnected, the sources of water often are
16 connected. Consolidation allows Arizona-American to deploy best management practices
17 consistently throughout its utilities to ensure its customers receive the same level of
18 service and commitment to best management practices.
19

20 Deconsolidation will result in a significant rate shock to Agua Fria wastewater customers
21 and create a significant disparity between Arizona-American's wastewater utilities for the
22 same type of service.
23

24 **Q17. SHOULD THE COMMISSION DECONSOLIDATE THE ANTHEM/AGUA-FRIA**
25 **WASTEWATER DISTRICTS?**

26 **A17.** No. The Commission should not elect to deconsolidate the Anthem/Agua-Fria
27 Wastewater districts because (1) the Commission has not yet decided on full
28

1 consolidation of Arizona-American's water systems, (2) deconsolidation would lead to
2 significant rate shock to Agua Fria customers and is contrary to A.R.S. 40-334(B), (3)
3 deconsolidation would lead to increased rate case expenses and regulatory lag between
4 rate settings, potentially impacting Arizona-American's ability to earn their authorized
5 rate of return in a timely manner, and (4) deconsolidation may lead to different levels of
6 services in the different water districts as management practices are deployed more
7 independently.
8

9 **Q18. DOES THIS CONCLUDE YOUR TESTIMONY?**

10 **A18.** Yes.
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COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343

Response provided by: Sandy Murrey

Title: Rate Analyst

Address: 2355 W. Pinnacle Peak Rd., #300
Phoenix, AZ 85027

Company Response Number: Verrado DMB 2.4

Q. The Compliance Application indicates de-consolidation would increase the Agua Fria area rates significantly, and would reduce the Anthem area rates from those authorized in Decision No. 72047. Please identify the main factors that contribute to the large disparity between the de-consolidated rates for the Agua Fria wastewater customers and the de-consolidated rates for the Anthem area customers.

A: The main factors contributing to disparity in de-consolidated rates are the Northwest Valley Regional Reclamation Facility, the Verrado Reclamation Facility and its expansion as well as the Russell Ranch Reclamation Facility.

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343

Response provided by: Thomas M. Broderick

Title: Director, Rates & Regulation

Address: 2355 W. Pinnacle Peak Rd., #300
Phoenix, AZ 85027

Company Response Number: Verrado DMB 2.1

Q. Please explain why Arizona-American Water Company has not previously proposed to de-consolidate the Anthem/Agua Fria Wastewater District.

A: Arizona-American has never proposed to deconsolidate any of its water or wastewater districts. This case is the result of the Commission ordering Arizona-American to file "an application supporting consideration" by the Commission whether to de-consolidate Anthem/Agua Fria Wastewater District.

Arizona-American previously supported and proposed to consolidate all five of its wastewater districts in Arizona into a single district for tariff/ratemaking purposes. Further, irrespective of the outcome of this case, another requirement of Decision #72047 is that the Company file in a future rate case "a consolidation proposal which includes all of its systems..." (Page 123, lines 15-16).

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343

Response provided by: Thomas M. Broderick

Title: **Director, Rates & Regulation**

Address: 2355 W. Pinnacle Peak Rd., #300
Phoenix, AZ 85027

Company Response Number: Anthem 1.3

- Q. With reference to page 13, line 11 – page 14, line 6 of the prepared Direct Testimony of AAWC witness Sandra L. Murrey, please explain why the \$387,153 proposed increase in revenues to Anthem wastewater customers (on a deconsolidated basis) does not constitute a rate increase outside the scope of the limited nature of this proceeding described by Ms. Murrey at page 8, lines 7-12 of her prepared Direct Testimony.
- A: The amount of \$387,153 refers to the proposed revenue from the City of Phoenix's account in the OWU class as a result of reducing the test year volumes to volumes at the flume. Test year revenues for this account were \$733,665 and, thus, under the proposal, \$346,512 is being shifted to residential and commercial customers via the proposed rate design. For the purposes of this limited proceeding, the Company now considers this a rate design change. Whether or not this proposal is outside the scope of the limited proceeding is up to the Commission to determine, but the Company acknowledges it was not aware of the City of Phoenix's preferences regarding the proposed rate design treatment of this account at the December 15, 2010 open meeting where the Company, the Anthem Council and the other parties negotiated the open meeting settlement which resulted in this limited proceeding. The Company's rates team has not yet had an opportunity to review the City of Phoenix's June 23, 2011 motion for the impact, if any, of the proposal in this limited proceeding.

COMMISSIONERS
MIKE GLEASON - Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE



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November 10, 2008

AZ CORP COMMISSION
DOCKET CONTROL

SW-01303A-08-0227
W-01303A-08-0227

**Re: Arizona-American Water Company's Rate Case Application, Docket No: 08-0227;
Request for information regarding the potential consolidation of Arizona-
American's water systems.**

Dear Parties to the Docket:

As you know, the Commission has previously been presented with proposals addressing water consolidation. In 2002 Arizona-American Water Company first proposed consolidation for its Agua Fria and Anthem wastewater customers. In its current Application, Arizona-American acknowledges its interest in reaching a statewide tariff and its general interest in rate consolidation, but declines to make a specific proposal regarding consolidation of its water system.

I write to request that the Parties provide the Commission, as part of their testimony in this case, an analysis addressing the predicted impacts of statewide and select consolidation of Arizona-American's water systems. As you know, consolidation can provide administrative efficiencies, create increased economies of scale, facilitate rate stability and bolster reliability, among other benefits.

Notwithstanding these potential benefits, consolidation efforts may not make sense in every instance. Issues such as an absence of present and projected rate comparability, or differences in supply sources and operational distinctions may result in poor combinations. Recognizing these limitations, I would like the Parties to propose combinations of systems where potential benefits outweigh the limitations. Specifically, Parties should consider combinations which would not result in marked rate changes post consolidation. Please also provide the Commission with an analysis of rates and operations under a statewide consolidation of Arizona-American's water systems.

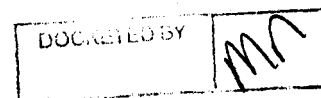
Thank you for your consideration of these matters.

Sincerely,

Kris Mayes
Commissioner

Arizona Corporation Commission
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NOV 11 2008



Parties to the Docket, No. 01303A-08-0227
November 10, 2008
Page 2

Cc: Chairman Mike Gleason
Commissioner William A. Mundell
Commissioner Jeff Hatch-Miller
Commissioner Gary Pierce
Ernest Johnson
Janice Alward
Lyn Farmer
Brian McNeil
Rebecca Wilder